- Q As global and regional value chains become a central feature of the trade landscape, what changes does this imply for aid for trade, and has past aid for trade contributed to e ective participation in global and regional production chains?
- Q Do management systems of governments, in partnership with donors, improve the e ectiveness of aid for trade?

To answer these questions, the chapter argues that a full picture of the e ect of aid on trade only emerges by looking at this relationship through various methodological prisms … including aggregate cross-country studies, programme reviews and project evaluation. The rst section reviews the general ndings about the relationship of aid for trade and trade creation. The second updates some of the past empirical ndings and pushes the cross-country analysis into new areas, looking at the impacts of di erent types of aid for trade on particular categories of developing countries. The third section highlights the emerging role of value chains and works through the implications for a

Beyond expanding exports to propel growth, other goals, although largely unmentioned in the Task Force report, emphasised progressively changing the composition of trade. This includes diversifying exports away from reliance on a few raw material commodities with volatile prices, increasing the domestic value-added in exports, and expanding intra-regional and South-South trade.

Other success indicators: reducing trade costs

In this context, negotiators realised that expanding and diversifying exports required aid for trade with the specific purpose of creating greater capacity to trade. This has two conceptually overlapping dimensions. One is augmenting investment in expanding the supply of exports through investment in new productive capacity and the new infrastructure necessary to support it. The second element is lowering trade costs through enhancing the efficiency of modern infrastructure use and adopting new technologies to achieve productivity gains and improvements in trade-related institutions, regulations and policies.[2]

OECD analysis (e.g. OECD, 2012; Moïsé and Le Bris, 2013) shows that poor infrastructure is a major contributor to high costs that impede trade, including developing countries• agricultural exports (Moïsé et al., 2013), and is therefore

…especially in the case of low income countries…

Aid for trade is particularly powerful for the International Development Association (IDA)-eligible poorest countries. To arrive at this conclusion, the analysis separated the sample into three groups based on their 1995 incomes in the World Bank classification categories.[17] These roughly comprise LDCs for which data were available and other low income countries. Developing countries that had reached upper middle income status by 1995 are therefore excluded. The 53 countries that were IDA-eligible in 1995 (with published trade data) recorded particularly high benefits from aid for trade, *i.e.* one dollar invested in aid for trade is associated with a nearly USD 20 return (Table 5.1). Based on their average export earnings in 2009-11, a 10 percent increase would imply a nearly USD 8 billion increase in their collective exports. A 25 percent increase would be associated with a USD 20 billion increase in trade. For very low income countries, the effects are much lower … no doubt because of the more numerous obstacles they face in ramping up exports in volume. A 10 percent increase is associated with a USD 1.4 billion increase in exports, in part because of the much lower base of export volume.

Table 5.1 Expected increase in total exports associated with increases in aid for trade

(USD million)	Aid for trade increases of:					
	Return rate	5%	10%	15%	20%	25%
Low income	2.7	720.5	1 441.0	2 161.4	2 881.9	3 602.3
Lower middle income	9.1	2 109.4	4 218.8	6 328.1	8 437.5	10 546.8
IDA	19.5	3 986.2	7 972.4	11 958.6	15 944.8	19 931.0
Developing countries	8.1	4 554.1	9 108.1	13 662.2	18 216.2	22 770.2

Source: Calculated from the regressions in Annex E, Table E.2. Country groupings based on 1995 World Bank classifications. IDA countries comprise low income and a few lower middle income countries also included in the first and second rows. Trade volume increases are calculated on the basis of average annual trade in 2009-11, aggregated for each income category in the sample.

The results also confirm the enormous disadvantages that countries in conflict face in trying to expand exports. The coefficients for conflict countries are significantly negative and strongly so (Annex E, Table E.1), underscoring the importance of peace and security for trade … and of a supportive environment that will allow aid for trade to be productive.

It should also be noted that participation in preferential trade agreements has robust and uniformly positive effects on exports, even controlling for other factors that could otherwise explain this finding (such as a common border or language). These results held in virtually all the estimations in the annexed tables. They coincide with Vijil's (2012) finding that aid for trade tends to be particularly effective in the presence of preferential regional trading arrangements, especially aid for trade aimed at institutional improvements (see also Chapter 4).

…but generalisations about optimal use of aid for particular countries are elusive

Some studies have tried to generalise about particular aid-for-trade allocations … whether for infrastructure, productive capacity, policies and regulations, etc. … and their appropriateness for selected categories of developing countries. Cali and te Velde (2010), studying th5.8(ne)5.4(r f2a).6(c)6o C0aSmtic-ilve ahe esb-7.7(e15.8(tt)4.(d o5.1(. A5

- For landlocked countries,

Countries, working with donors and the multilateral financial institutions, have instituted various forms of management systems to monitor individual projects and programmes against original objectives. These management systems are intended to track more than inputs and outputs (e.g. the amount of money spent on road construction or the kilometres of roads built) and to focus on outcomes (e.g. lower transport costs and increases in goods exported) and impacts (e.g. rising export volumes and growth in income). This entails identifying the chain of results from project inputs, to activities, outputs, outcomes and long-term impacts:

> The results chain provides a framework within which to monitor and measure expected changes that will result from project activities. Key changes described in the results chain are translated into targets, and indicators are identified for tracking results at each step in the programme logic. Indicators are therefore a critical component of results-based management systems (OECD, 2011c: 75).

Figure 5.3 Seven phases of results-based management of which was the Ghana Shared Growth and Development Agenda covering 2010 to 2013. Solomon Islands prepared a National Development Strategy 2011-2020. In all six countries overarching objectives were projected over a timeframe of one or two decades, usually with subordinate, more speci c national planning documents with a two- to three-year horizon. All of these featured trade outcomes as prominent objectives and, even more frequently, objectives for the underlying determinants of trade capacity, particularly infrastructure and human skill development. For example, one of the ve pillars of Colombia•s National Development Plan was •sustainable growth and competitiveness: innovation, competitiveness and productivity growth, growth engines and job creationŽ (OECD, 2013a).

The national development plans, both long-term and shorter term, provided a framework for sectoral strategies evident in many of the case study countries. In Ghana, for example, accelerating agricultural modernisation through implementation of sector-speci c programme was the objective of its Food and Agriculture Sector Development Policy and the corresponding investment plan articulated in its Medium-term Agricultural Sector Investment Plan. In Rwanda, the relevant ministries and agencies had formulated more than two dozen sectoral and sub-sectoral strategies for implementation in association with their respective ministries• plans. Although in all the case study countries trade objectives had been mainstreamed in national programmes, the formulation of explicit targets for purposes of monitoring and evaluation … topics towards the lower end of the results framework described in Figure 5.3 … was only clear in Colombia, Ghana, Rwanda and, to a lesser extent, Viet Nam. These countries reported fairly speci c trade-related objectives and measurable indicators, while Bangladesh and Solomon Islands did not. Similarly, even fewer countries evidenced detailed monitoring and evaluation systems that provided regular feedback to policy makers that could be used to make course corrections.

The ICTSD reported on its three country studies that •ƒmainstreaming of trade at a formal levelƒdoes not necessarily imply mainstreaming in practiceƒŽ (ICTSD, 2012: 11). Uganda, according to the World Bank•s DTIS (2013), does have a workable system of results-based management (RBM) and monitoring and evaluation (M&E). While only partially e ective, it permits monitoring of aid-for-trade implementation and transmittal of M&E information upwards for subsequent implementation improvement.

Evaluating donor performance

Because mutual accountability implies not only government obligations to donors but also donors• obligations to government, some governments have begun to work with donors to establish an agreed evaluation scheme for donor performance. For example, in Uganda the 2013 DTIS (World Bank, 2013) reports that the O ce of the Prime Minister

Do effective results-based management systems improve aid-for-trade performance?

The case studies suggest that a solid results-based management system can raise the effectiveness of aid for trade. While the aid effectiveness literature provides a plethora of convincing studies on the broad relationship of "effective governments" to better use of official development assistance, it is virtually silent on aid for trade.

To begin to fill that lacuna, research for this chapter used econometric techniques to estimate the interactive effects of aid for trade in the presence of good management. As noted above, these estimations revealed significant and positive associations of aid for trade on exports of recipient countries, controlling for the country characteristics of the trading partners, their trading situation (*e.g.* distance, regional trade agreements, conflicts), and year. To understand the effect of good management, analysis used these same models, but for this section interacted the aid for trade measure with indicators of government effectiveness. The best proxy for good management – because it spanned the entire period 1995-2011 – was the World Bank's measure of "government effectiveness".[22] The results revealed that when the measure of "government effectiveness" was interacted with aid for trade, significantly greater than average increases in exports resulted.[23] Perhaps more revealing, when the management interaction term was included in the analysis, the separate positive effects of aid for trade evident in the base runs turns significantly negative; this suggests strongly that management is crucial to the effectiveness of aid for trade.

Similarly, good management also indicates a strong positive spill-over effect from other forms of development assistance on exports. This suggests an additional interpretation of the negative coefficient in the earlier regressions. It may well be that effective use of all development assistance because of better management contributes to better trade performance, while only those receiving substantial aid in less well-managed contexts suffer the negative effects of lower trade through the exchange rate channel. This hypothesis requires further investigation.

CONCLUSIONS

Aid for trade is e ective ƒ but requires a supportive environment

This chapter explores the e ectiveness of aid for trade in promoting trade … both exports and imports … and conditions which tend to make it most e ective. The review provides abundant evidence suggesting that bilateral aid for trade is broadly correlated with increases in trade. Analysis in this chapter suggests that aid for trade destined for low and lower middle income countries is likely to have a high pay-o . Typically, one dollar invested in aid for trade is on average associated with an increase of nearly USD 8 in exports from all developing countries … while one dollar of aid for IDA countries amounts to USD 20 in new exports and to USD 9 for all low and lower middle income countries.

Furthermore, there is abundant evidence that aid for trade is appropriately targeted on lowering trade costs … in the form of additional infrastructure, better institutions such as customs and standards authorities, and more trade friendly policies and regulations, whether in regard to tari s and non-tari barriers (NTBs) or regulatory measures that expose logistics companies to new competition. However, because country situations are very di erent, trade obstacles and opportunities in a speci c country should dictate appropriate instruments rather than cross-country generalisations.

These broad conclusions notwithstanding, it is clear that aid for trade is not e ective in all country situations in attaining its intermediate outcome objectives of increasing trade, much less its impacts in promoting rapid growth and reducing poverty. Aid for trade is most e ective at easing trade and promoting trade-led growth when recipient countries have a supportive business environment, particularly stable macroeconomic policies and an investment climate that encourages private investment.

The absence of peace and security has a large dampening e ect on export performance, and con icts have the power to wipe out any bene ts from investment in aid for trade. Similarly, the well-known lessons that high aly tetablnt 8.3(m)12.3(tion)1(,)corpton, ors -9(r)-103(a)6.3(b)-1.2(l) iropr-10.2(o)5.2(r)131.3(t)-19.9(ty-.1(orig6.9(h)65. t cene s ef all did fltsoanp-.2(py t)18.7(o)-.2(wh)eubsetof aid for tradeuO-1.2(cE7(pC10.8(iD)2.61,)-.2(t214.7(t)49.1(1)76

14. Portugal-Perez and Wilson (2009) provide another example of the use of gravity models in this literature.
15. Oil exporters were excluded from the sample as exporters. These countries were either among the top 15 exporters of oil, following the United States Energy Information Administration, or their share of oil exports in

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